GETTING YOUR Ps IN A ROW

P3 as an alternate approach to financing parking structures.

SHUTTERSTOCK

By Michael D. Martindill

Man, it's tough out there. Cities, states, counties, and academic institutions continue to experience shrinking budgets and reduced revenues. The public financing markets are still erratic and unpredictable. Taxable and non-taxable debt continues to be about the same, which has not happened in decades. All the while, public demand continues for infrastructure improvements to meet growing enrollments, drive economic development, and support various institutions.

The result is that more and more owners are seeking alternatives for funding and delivering parking garages. In particular, they are looking for solutions offered by third parties, including real estate professionals and developers. Institutions, specifically colleges and universities, are having great difficulty generating the capital needed to finance infrastructure projects such as parking structures. Other reasons for involving a third party include preserving the credit rating and debt position of an institution and, maybe more importantly, preserving the capacity of the institution to dedicate debt toward core-related projects such as academic buildings, medical office buildings and buildings that enhance their purpose.

Benefits and Drawbacks

The pressure has never been greater to seek a third party for assistance in delivering parking garages, or work in a public-private partnership (P3). There are many benefits to implementing a P3 agreement, including transferring certain risks onto the private sector by making it a partner in the deal, and reduced financing and construction costs that are common within the private development community. Also of note is the ability to accelerate the overall project delivery, from financing to final completion.

So far, P3 has a solid track record for achieving on-time, under budget delivery on many projects, especially those that are well-defined and delivered using a qualifications-based process; in other words, only allowing firms that can demonstrate a proven record of delivering the type of project (parking structure) an owner is seeking. This may be a free-standing garage or one that includes a variety of other uses such as ground floor retail, a residential component, or a transit station.

P3, however, does have its pitfalls and blemishes like any other form of project delivery. Potential drawbacks of P3 include an extraordinarily long lease term, unacceptable or unattractive buyout provisions, and increased parking rates or fees required for the lease. These and other drawbacks can be mitigated by engaging a professional (such as a parking consultant in the case of a parking structure P3) to serve as an owner's agent throughout the entire process. A consultant experienced in the area of P3 can help craft RFQ and RFP language that can protect the owner's interests and serve as a translator throughout the entire process. This will help make sure the responses and proposals received are in line with best interests of the institution, reducing the owner's risk.

A variety of market sectors have begun implementing P3 agreements, including transit agencies, universities, schools, cities, counties, and states. P3 has been around for years, but its popularity is growing due to the economic woes that many institutions continue to face today.

The Model

The most common structure used by institutions is the lease-leaseback model, which is one where a

private party (an LLC, for example) enters into a ground lease for a term longer than the lease. For example, a typical ground lease term for a parking garage is 35 to 40 years, while the typical term of the lease is 25 to 30 years. The private party designs, builds, and finances 100 percent of the project. The private party then leases the building—in our case, a parking structure—back to the public entity. The public entity pays rent over the term of the lease. At the end of the lease, assuming all debt obligations have been met, the asset then reverts back to the institution for a very small fee, which is typically $1.

Throughout the process, the institution has a seat at the table and is maintaining control over the delivery of an asset they will eventually own, helping ensure that they get what they feel is best for their institution from the outset.

Applying It to Campuses

Student housing is a great example of how universities have sought the help of private parties to deliver much-needed buildings. Student housing deals, however, are typically able to stand alone and meet their debt and operational expenses through market-based rental rates. A parking garage is much more difficult to *pro forma* as a stand alone structure, because very few university patrons can afford to pay $85 to $100 per month per space. So the institution must implement other revenue-generating strategies to provide the revenue stream necessary to meet the debt and operational costs.

In the case of a university, parking and transportation fees may need to be assessed and/or increased for students, faculty, and staff to generate the needed income to cover the debt and the required debt service coverage ratio. In addition, other revenues from the parking system, including citations, visitor parking, special event parking, and parking permits may have to be pledged towards the debt so that the deal can be financed.

Many universities currently follow this model, either through their own real estate foundations or through private entities. Cities, counties, and others may use tax allocation districts or similar mechanisms to provide the revenue stream that, when coupled with daily, monthly, and special event parking fees, generates the needed revenue for offsetting the debt and the operational expenses associated with a parking structure. In addition, when occupied space is included, institutions may use the rent as an additional form of revenue for making the deal work.

They Did It

Many universities in Georgia, including Kennesaw State University, Valdosta State University, and the University of Georgia have recently delivered parking structure projects through a public/private approach involving their real estate foundations. All of these universities, while varied in size, were able to use parking fees to fund the development and delivery of their respective garages.

Other universities, including the University of Southern Mississippi, have used a similar approach in which they solicited the help of a third party (other than their real estate foundation) to deliver the garage. Because cash flow existed, a private firm was able to deliver a garage using the lease-leaseback model.

What is most important is that the university does not give up control of the project to the third party. In the case of the University of Mississippi, the university is very involved in the design of the garage, from the functional design to the selection of the structural system. Throughout the process, the institution has a seat at the table and is maintaining control over the delivery of an asset they will eventually own, helping ensure that they get what they feel is best for their institution from the outset. If the university is in a position to manage the asset, great. They know what kind of experience they want to provide for their users and, because many are in the parking business, absorbing the new garage into their existing system is typically very cost effective; the cost of managing and maintaining the garage is folded into their overall operating budget.

A parking facility may need to be expanded or even demolished at some point to provide for the long-term development needs and plans of the institution. Here again, a lease/leaseback structure is often the most logical agreement between a university and a private entity.

At a time when public institutions are struggling to secure any sort of funding to support much-needed infrastructure projects, P3 initiatives are an exciting and long-awaited opportunity. Public institutions today are seeking creative, financially responsible options to pay for the continued improvement and expansion of their environment, place of business, or campus. Public-private partnerships help unlock existing equity in the university's assets to pay for new development. Continued development through public-private partnerships will not only help public institutions tap into funding that would not normally be accessible, but will also provide the infrastructure needed to grow and enhance their campuses so that they can thrive in the very competitive environment in which we live, work, and play.

MICHAEL D. MARTINDILL is vice president with Timothy Haahs & Associates, Inc. He can be reached at mmartindill@timhaahs.com.